Medequip for Trading and Contracting

Company Operations

Largest supplier of medical equipment and healthcare services

Medequip was established in 1960 by Dr. Raymond Lakah. Medequip for Trading and Contracting (Medequip) was incorporated in 1994 as a joint stock company. The largest supplier of medical equipment and healthcare services in Egypt, the company is mainly involved in the sale of medical equipment and the construction of medical facilities.

The distribution of medical equipment, which includes major international brands, is made either through direct sales or through turnkey projects involving the construction division. The 1998 breakdown of revenues by business activity shows that medical construction (hospitals and clinics) accounted for 41% of sales, medical equipment distribution through turnkey projects made up 38% and direct equipment 21% of sales.

As of June 1999, the company had 156 full-time employees and 400 part-time employees involved in the construction business.

Products, Services, Market Share and Competitors

Medical equipment from leading brands such as Hewlett-Packard, Olympus and Draeger Medzintechnik

- *Medical equipment.* Medequip distributes and services medical equipment from ten leading international medical equipment manufacturers. These include:
  - *Hewlett Packard Co. (USA):* for cardiovascular imaging systems, patient monitoring systems and cardiology products. HP products sold in Egypt through Medequip are market leaders, with market shares ranging from 45% to 60% depending on the product. ATL, Spacelabs and Physio are among HP's strongest competitors in Egypt;
  - *Olympus Optical Company (Japan):* for surgical products (25% market share in Egypt after Storz) and flexible endoscopy products (70% share). These products are essential for carrying out minimal invasive surgical procedures. Storz and Pentax are among Olympus's strongest competitors;
  - *Draeger Medizintechnik (Germany):* for anaesthesia (35% market share), neonatal care (45% share) and ventilation products (35%). Draeger products occupy first or second place in Egypt in terms of market share. Bennett, Ohmeda and Atom are among Draeger's strongest competitors.

First company in Egypt to offer medical equipment leasing

- *Leasing and financing services.* Medequip was the first company in Egypt to offer medical equipment leasing programmes to private hospitals and clinics. Lease periods range from two to five years. The equipment remains the property of Medequip until the client fulfils any outstanding obligations. The rate charged on the leases is 16% while the cost of funds is 11%. The total outstanding amount as of 30 April 1999 was E£101mn.

Acquired turnkey know how from the French

- *Turnkey projects without construction services.* Medequip first acquired know-how from French turnkey companies in the mid '80s. In the late '80s it completed its first turnkey equipment supply project at Abou El Rish hospital. In the early '90s it established a dedicated design office, finishing department, electro-mechanical engineering department to provide a more integrated turnkey operation.

Leading position in turnkey medical centres

- *Turnkey projects with construction services.* The accumulation of turnkey expertise led in the mid/end '90s to the company winning contracts and gaining leadership in turnkey medical centres (and other utility buildings) projects, involving construction, finishing and equipment. Medequip subcontracts the finishing and the Electro-mechanical work to its sister company Quest Consult. Key competitors on the construction side are: Arab Contractors, Orascom Construction Industries (OCI) and Arabian International Construction (AIC).

71% market share in turnkey projects

- *Turnkey projects expertise.* Medequip completed several turnkey projects in Egypt, Middle East and Africa. These include 40 turnkey hospitals in Egypt, seven turnkey diagnostic and therapy centers in Egypt, two turnkey hospitals in the Middle East, more than 300 operating rooms, more than 700 Intensive Care Units and more than 550 physiotherapy centres. The estimated market share in turnkey projects is 71%.

Core Strengths and Company Strategy

Extensive product range, world class suppliers, superior training and technical support

Medequip has several core strengths. These include an extensive product range from world class suppliers and an impressive track record in proving superior clinical training and technical support. Moreover, Medequip has the means to invest in adequate inventory of products and spare parts for better customer service.

A level qualification as contractor

Finally, as one of the few contractors in Egypt with A-level qualification which allows it to participate in all government tenders, Medequip has recognised expertise in constructing medical facilities. Medequip's competitive edge in turnkey projects manifests itself in lower contract bids and/or higher margins resulting from the vertical integration of its services and quicker contract execution, resulting from the simplified logistics inherent in complete solutions providers. The competition needs a consortium to bid for the turnkey projects while Medequip can bid on its own or with the help of one of its subsidiaries.

The company's strategy revolves around using these strengths to maintain its competitive edge as a unique provider of complete medical solutions (from designing - to building - to equipping and maintaining hospitals and other medical facilities). It intends to grow aggressively by investing heavily in its construction and leasing business.

Positioning itself to benefit from improving healthcare

Leasing medical equipment is a necessity in Egypt where most private sector doctors cannot afford to acquire such equipment. Leasing is typically financed by banks or by large companies which are well funded. Thanks to the current capital increase and recent corporate bond issues, Lakah Group is positioning itself through Medequip to exploit the improving fundamentals of the healthcare sector.

Market Segments and Customers

Health Ministry is the largest customer, accounting for 45% of revenues

In 1998, the private sector (private hospitals) accounted for only 5% of the demand for Medequip's products and services. The Ministry of Health (public sector hospitals and clinics) was Medequip's largest customer, contributing 45% of Medequip's revenues while university hospitals (Ministry of Education) contributed 40% of revenues and the Ministry of Defence (the Military) contributed 10%. As more private sector hospitals and clinics open to service upper middle class Egyptians, the private sector's share of Medequip's sales is expected to increase significantly over time.

Issues, Concerns and Risks

Risk of overstretching managerial capabilities...

Medequip's strategy of expanding its geographic markets coverage and its lease financing business may overstretch its managerial capabilities and require increasing amounts of working capital and long-term funding.

...but no risk of restrictions on letters of credit

The risk of Central Bank restrictions on letters of credit resulting from chronic dollar shortages is real for most importers but not for medical equipment importers which are not subjected to 100% pre-financing requirements.

Growth dependent on both public sector and private sector spending

The growth potential of Medequip's business in Egypt is very significant but the extent of such growth requires increasing public sector spending on health and continued development of the private medical sector. Nevertheless, we do not envisage any deterioration in the demand fundamentals of the health-care sector.

No year 2000 issue

Medequip has tested all its hardware and software to be year 2000 compliant and does not envisage any problems due to the issue.

Financial Analysis

Table 10

Medequip Financial Highlights and SG Forecasts

Medequip Income Statement, in E£ 000						
For year ending 31 December	**1997**	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
Sales	201,253	255,677	402,077	522,493	634,028	733,872
Cost of Sales	163,419	186,245	290,097	376,656	457,754	526,812
Gross Profit	**37,834**	**69,432**	**111,980**	**145,837**	**176,274**	**207,061**
Operating expenses before D&A	22,628	27,598	44,106	49,610	56,554	61,479
EBITDA	**15,207**	**41,834**	**67,873**	**96,227**	**119,720**	**145,582**
Depreciation and amortisation	218	919	924	1,149	1,374	1,599
EBIT	**14,989**	**40,915**	**66,950**	**95,078**	**118,346**	**143,983**
Net financial & other expense	7,936	13,594	- 418	5,135	10,072	10,263
EBT	7,052	27,321	67,368	89,943	108,275	133,720
Tax provisions	2,949	7,475	22,947	31,977	39,310	47,488
Net profit	**4,103**	**19,846**	**44,421**	**57,966**	**68,965**	**86,232**

Medequip Balance Sheet in E£ 000						
For year ending 31 December	**1997**	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
Cash	**4,424**	**4,404**	**3,840**	**9,772**	**7,754**	**10,037**
Accounts & other receivables	31,269	50,882	80,415	104,499	126,806	146,774
Notes receivable	5,722	15,021	21,470	28,216	35,160	42,383
Work in progress	36,245	67,763	132,416	192,417	242,073	290,488
Inventory	24,377	68,862	41,413	43,069	44,792	46,584
Other current assets	18,560	26,649	30,000	35,000	40,000	45,000
Total current assets	120,597	233,582	309,554	412,973	496,585	581,266
Net fixed assets	3,714	3,885	4,462	4,813	4,939	4,841
Other long term assets	46,574	106,797	152,136	198,107	245,397	294,553
Total long term assets	50,288	110,682	156,597	202,920	250,337	299,394
Total assets	170,885	344,264	466,151	615,893	746,921	880,660
Accounts payable	25,315	18,834	66,519	86,390	104,942	120,983
Short term debt	15,132	45,806	-	32,500	45,000	50,000
Other current liabilities	6,251	9,796	31,178	42,793	52,788	63,735
Total current liabilities	46,697	74,435	97,697	161,683	202,730	234,718
Long term debt due to banks	100,000	145,795	-	50,000	100,000	100,000
Long term debt due to Holding Co.	-	-	200,000	200,000	200,000	200,000
Bonds	-	-	-	-	-	-
Total long term debt	100,000	145,795	200,000	250,000	300,000	300,000
Other long-term liabilities	-	-	-	-	-	-
Total long term liabilities	100,000	145,795	200,000	250,000	300,000	300,000
Paid up capital	20,000	100,000	100,000	100,000	100,000	150,000
Reserves and retained earnings	4,188	24,034	68,455	104,210	144,192	195,941
Shareholders' Equity	**24,188**	**124,034**	**168,455**	**204,210**	**244,192**	**345,941**
Total liabilities & shareholders' equity	**170,885**	**344,264**	**466,151**	**615,893**	**746,921**	**880,660**

Source: Lakah Group audited and unaudited financial statements and SG forecasts

Financial Analysis

Table 11

Medequip Financial Highlights and SG Forecasts

Cash Flow Statement, in E£000

For year ending 31 December	1998	1999E	2000E	2001E	2002E
Net profits	19,846	44,421	57,966	68,965	86,232
Add: depreciation and amortisation	919	924	1,149	1,374	1,599
Gross cash flow	**20,765**	**45,345**	**59,114**	**70,338**	**87,831**
Add: net financial & other expense	13,594	-418	5,135	10,072	10,263
(Increase) decrease in non-cash working capital	-85,266	-53,275	-33,500	-44,582	-50,410
Operating cash flow	-50,907	-8,349	30,749	35,828	47,684
Capital expenditures on fixed assets	1,090	1,500	1,500	1,500	1,500
Free cash flow	**-51,997**	**-9,849**	**29,249**	**34,328**	**46,184**
Less: net financial and other expense	-13,594	418	-5,135	-10,072	-10,263
(Increase) decrease in other long-term assets	-60,223	-45,339	-45,971	-47,290	-49,156
Increase (decrease) in long-term liabilities	45,795	54,205	50,000	50,000	-
Increase (decrease) in paid in capital	80,000	-	-	-	50,000
Less: dividends paid	-	-	-22,210	-28,983	-34,482
Net cash flow	**-20**	**-564**	**5,932**	**-2,017**	**2,283**
Beginning cash	4,424	4,404	3,840	9,772	7,754
Year end cash	**4,404**	**3,840**	**9,772**	**7,754**	**10,037**

Ratio and DuPont Analysis

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
EBIT margin	7.4%	16.0%	16.7%	18.2%	18.7%	19.6%
X Asset turnover	1.18	0.74	0.86	0.85	0.85	0.83
= Return on assets (ROA)	8.8%	11.9%	14.4%	15.4%	15.8%	16.3%
x Financial & other burden	0.47	0.67	1.01	0.95	0.91	0.93
= EBT / Assets	4.1%	7.9%	14.5%	14.6%	14.5%	15.2%
x [1 - Effective tax rate]	58.2%	72.6%	65.9%	64.4%	63.7%	64.5%
x Leverage [Assets / Equity]	7.1	2.8	2.8	3.0	3.1	2.5
= Return on equity (ROE)	17.0%	16.0%	26.4%	28.4%	28.2%	24.9%
Gross margin	18.8%	27.2%	27.9%	27.9%	27.8%	28.2%
EBITDA margin	7.6%	16.4%	16.9%	18.4%	18.9%	19.8%
Net margin	2.0%	7.8%	11.0%	11.1%	10.9%	11.8%
ROCE	10.8%	13.0%	18.2%	19.5%	20.1%	20.7%
Net debt / Equity	4.58	1.51	1.16	1.34	1.38	0.98
Net interest cover	1.89	3.01	-160.02	18.51	11.75	14.03

Source: Lakah Group audited and unaudited financial statements and SG forecasts

Financial Analysis - Comments

- Confirmed **contract backlog** between April 99 and December 99 is at least E£300mn. Management expects to implement E£ 504mn worth of contracts this year. We have used a lower number to indicate our sales estimate.

CAGR 99-01 sales of 35.4% and CAGR earnings of 51.5%

- While equipment sales will eventually **grow at a moderate** rate, highly profitable maintenance services will thrive on an **ever-larger installed base** of medical equipment units. Coupled with rapidly growing construction revenue (turnkey and non-medical) and the 5% spread on financing medical equipment sales, this means higher margins and a CAGR 91-01 of 51.5% for earnings.
- A DuPont Analysis show the positive impact of higher margins on ROE. The decline in 2002 ROE is primarily due to reduced gearing despite a **50% dividend payout ratio.** Dividend payments are made to Lakah Group Holding.
- High working capital requirements but low capital expenditure needs.

Trading Medical Systems Egypt (TMSE)

Company Operations

Sole representative of Toshiba medical equipment in the Middle East, North and West Africa and Turkey

TMSE sells Toshiba medical equipment, the sole distributorship of which was initially granted to Medequip in 1985. TMSE was set up in 1990 to focus on selling and servicing diagnostic equipment to hospitals and medical centres. In 1994, Toshiba appointed the company to be its sole representative in the Middle East, North and West Africa and Turkey where TMSE has established one of the largest equipment service centres.

TMSE offers complete service contracts and warrantee using locally based engineers trained in Egypt, Europe, USA and Japan. Moreover, it provides the medical community with clinical support services. Finally, the company offers turnkey medical solutions via its Medequip subsidiary. These solutions involve on-site planning, project management and other services.

TMSE's revenues amounted to USD 41mn in 1998. As of June 1999, the company had 156 full-time employees.

Products

An extensive range of world class products

TMSE's product range includes:

- *Computer Tomography (CT).* CT is a whole body scanner which uses slip-ring technology for the continuous rotation of the X-ray tube and detectors in order to process axial images for the patient as well as volumetric data. Unit prices range between USD 400,000 and USD 1.5mn;
- *Magnetic Resonance Imaging (MRI).* MRI is a system which offers advanced rapid scan sequences, comprehensive vascular imaging and superior imaging quality. Toshiba is the only company in the world to offer MRI technology using super conductive open magnets. Unit prices range between USD 900,000 and USD 2.2mn;
- *X-ray and Angiography Systems.* Angiography systems, which are X-ray diagnostic devices, are used to diagnose and treat vascular diseases in the brain, heart and peripheral regions; and
- *Gamma Camera (nuclear medicine).* Nuclear Medicine systems are used for cardiac pool, myocardial analysis, brain analysis, kidney analysis, pulmonary ventilation analysis, gallbladder ejection fraction, gastric emptying, uptake rates for thyroid, liver and bone. Unit prices range between USD 300,000 and USD 800,000.

Core Strengths and Company Strategy

Aims at regional expansion and entering new fields

- TMSE, which has confidence in Toshiba's continued research & development leadership in the imaging field, intends to maintain its leadership of the Egyptian market and grow its business in the Middle East, North Africa, West Africa and Turkey by concentrating on the distribution and servicing of Toshiba products. It also intends to aggressively enter the field of Telemedicine and imaging networks.

Applying the same recipe for success used at Medequip: superior customer service

- This will be achieved by maintaining superior service quality and technical support and a high level of clinical support. This requires on-going training of its skilled Arabic-speaking application specialists and maintaining sufficient inventory to meet customer needs. The provision of lease financing will also help promote the growth of TMSE's operations by attracting new customers that otherwise would not be able to afford such equipment.

Market segments and customers.

Private sector accounts for 38% of demand

The private sector accounted for 38% of demand for TMSE's products in Egypt. The balance is divided between the Ministry of Health (public sector hospitals and clinics), the Ministry of Defence (the Military) and the university system. As

more private sector hospitals and clinics open to service upper middle class Egyptians, the private sector's share of TMSE sales is expected to increase over time.

Market size, market structure and competitors

Market share of Toshiba products rose from 1% to 42% in 12 years

- *Competitors in Egypt.* In 1986, Toshiba's medical equipment products had a 1% market share while Siemens, Philips Medical Systems (Philips) and General Electric (GE) had a 37% share of the market. By 1998, TMSE had succeeded in making Toshiba the market leader with a 42% share of the Egyptian medical market. GE is currently represented by New Technology, a company with a small E£2-E£5mn paid-in capital and a maximum of 15 employees but no locally-based application specialists. Both Siemens and Philips are represented by a public sector company, El-Goumhouria, and each have a representative office which handles servicing and maintenance. Siemens is about to appoint Ahmed Bahgat Group to represent the company.

CT has 46% of the market share for scanners

- *CT.* TMSE is the leading supplier of CT scanners in Egypt, with a 46% market share of the Egyptian CT market of total installed base of 189 units, with 88 installed units. Siemens is its strongest competitor in this market with 34 installed units. Other competitors include Philips and GE;

TMSE has 39% of the MRI market share

- *MRI.* TMSE management believes it is the market leader for MRI with 17 units installed representing a 39% share of the Egyptian MRI market of total installed base of 45 units. GE is its strongest competitor with 15 units installed. Other competitors include Siemens and Philips;

TMSE has 30% of the angiography market

- *Angiography systems.* TMSE management believes it is a leading supplier with 17 installed units representing 30% of the Egyptian angiography market of total installed base of 56 units. Philips is the market leader with an estimated 18 installed units;

TMSE has 35% of the gamma camera market share

- *Gamma Camera.* TMSE management considers that it is the leading supplier of Gamma camera units with 19 units installed, representing a 35% market share of total installed base of 53 units. Siemens is its strongest competitor in this market with 12 installed units.

Issues, Concerns and Risks

Heavy reliance on Toshiba distributorship agreement

- TMSE's business depends solely on its distributorship agreement with Toshiba. Such exclusive reliance represents a risk that cannot be ignored. We believe the risk is minimal, however, as TMSE's market success led to a strong relationship with Toshiba. Moreover, this relationship is getting stronger over time as Toshiba extended geographically its distribution agreement with TMSE.
- TMSE's strategy of expanding into new market segments and new geographic markets may overstretch its managerial capabilities and require ever increasing working capital.

Risk of competitors emulating high quality of service

- Toshiba's competitors such as Siemens, GE and Philips may emulate TMSE's recipe for success, which relies on superior customer servicing, product and spare parts availability and, recently, providing lease financing. If El-Goumhouria is privatised, TMSE will face a more effective competitor (assuming it is still selling Philips products).
- The growth potential of TMSE's business in Egypt is large but the extent of such growth requires increasing public sector expenditure on health and continued development of the private medical sector. Nevertheless, we do not envisage any deterioration in the demand fundamentals of the health-care sector.

No year-2000 issues

- TMSE has tested all its hardware and software to be year 2000 compliant and does not envisage any problems from the issue.

Financial Analysis

Table 12

TMSE Financial Highlights and SG Forecasts

TMSE Income Statement, in E£ 000						
For year ending 31 December	**1997**	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
Sales	117,182	138,831	156,261	179,075	204,083	230,586
Cost of Sales	93,351	103,529	112,132	123,008	134,932	148,007
Gross Profit	**23,832**	**35,302**	**44,129**	**56,067**	**69,150**	**82,579**
Operating expenses before D&A	8,117	8,981	10,001	11,282	12,653	14,066
EBITDA	**15,715**	**26,320**	**34,128**	**44,786**	**56,497**	**68,513**
Depreciation and amortisation	388	470	584	684	784	884
EBIT	**15,326**	**25,851**	**33,544**	**44,101**	**55,713**	**67,629**
Net financial & other expense	6,985	7,706	11,264	12,720	16,974	21,886
EBT	8,341	18,145	22,280	31,382	38,738	45,742
Tax provisions	2,337	5,621	6,912	10,553	13,495	16,297
Net profit	**6,004**	**12,524**	**15,368**	**20,829**	**25,243**	**29,445**

TMSE Balance Sheet in E£ 000						
For year ending 31 December	**1997**	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
Cash	**2,881**	**2,740**	**14,271**	**25,219**	**36,796**	**50,263**
Accounts & other receivables	5,089	6,246	7,032	8,058	9,184	10,376
Notes receivable	13,615	15,842	18,449	24,029	30,340	37,508
Work in progress	-	-	-	-	-	-
Inventory	32,204	30,872	35,940	41,187	46,939	53,035
Other current assets	4,445	25,139	28,127	32,234	36,735	41,505
Total current assets	58,234	80,839	103,819	130,726	159,994	192,688
Net fixed assets	4,245	3,807	4,223	4,539	4,754	4,870
Other long term assets	78,151	68,822	101,932	139,128	181,206	228,991
Total long term assets	82,396	72,629	106,155	143,667	185,961	233,861
Total assets	140,630	153,468	209,974	274,393	345,955	426,549
Accounts payable	28,538	16,216	28,033	30,752	33,733	37,002
Short term debt	27,220	44,820	35,000	35,000	35,000	35,000
Other current liabilities	4,212	9,350	12,773	18,553	23,915	29,464
Total current liabilities	59,969	70,385	75,806	84,305	92,648	101,466
Long term debt due to banks	56,511	16,409	52,127	94,902	143,292	198,244
Long term debt - Holding Co.	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Total long term debt	56,511	16,409	52,127	94,902	143,292	198,244
Other long-term liabilities	-	-	-	-	-	-
Total long term liabilities	56,511	16,409	52,127	94,902	143,292	198,244
Paid up capital	20,000	50,000	50,000	50,000	50,000	50,000
Reserves and retained earnings	4,149	16,673	32,041	45,186	60,015	76,839
Shareholders' Equity	**24,149**	**66,673**	**82,041**	**95,186**	**110,015**	**126,839**
Total Liabilities & shareholders' Equity	**140,630**	**153,468**	**209,974**	**274,393**	**345,955**	**426548.87**

Source: Lakah Group audited and unaudited financial statements and SG forecasts

Financial Analysis

Table 13

TMSE Financial Highlights and SG Forecasts

Cash Flow Statement, in E£000						
For year ending 31 December		**1998**	**1999E**	**2000E**	**2001E**	**2002E**
Net profits	356	12,524	15,368	20,829	25,243	29,445
Add: depreciation and amortisation		470	584	684	784	884
Gross cash flow		12,994	15,952	21,513	26,027	30,330
Add: net financial & other expense		7,706	11,264	12,720	16,974	21,886
(increase) decrease in non-cash working capital		-12,331	-6,028	-7,462	-9,347	-10,409
Operating cash flow		8,369	21,188	26,771	33,655	41,807
Capital expenditures on fixed assets		-	1,000	1,000	1,000	1,000
Free cash flow		8,369	20,188	25,771	32,655	40,807
Less: net financial and other expense		-7,706	-11,264	-12,720	-16,974	-21,886
(Increase) decrease in other long-term assets	456	9,329	-33,110	-37,196	-42,078	-47,785
Increase (decrease) in long-term liabilities		-40,102	35,717	42,775	48,390	54,952
Increase (decrease) in paid in capital	455	30,000	-	-	-	-
Less: dividends paid		-	-	-7,684	-10,415	-12,622
Net cash flow		-110	11,531	10,947	11,578	13,467
Beginning cash		2,881	2,740	14,271	25,219	36,796
Year end cash	456	2,772	14,271	25,219	36,796	50,263

Ratio and DuPont Analysis						
For year ending 31 December	**1997**	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
EBIT margin	13.1%	18.6%	21.5%	24.6%	27.3%	29.3%
X Asset turnover	0.83	0.90	0.74	0.65	0.59	0.54
= Return on assets (ROA)	10.9%	16.8%	16.0%	16.1%	16.1%	15.9%
x Financial & other burden	0.54	0.70	0.66	0.71	0.70	0.68
= EBT / Assets	5.9%	11.8%	10.6%	11.4%	11.2%	10.7%
x [1 - Effective tax rate]	72.0%	69.0%	69.0%	66.4%	65.2%	64.4%
x Leverage [Assets / Equity]	5.8	2.3	2.6	2.9	3.1	3.4
= Return on equity (ROE)	24.9%	18.8%	18.7%	21.9%	22.9%	23.2%
Gross margin	20.3%	25.4%	28.2%	31.3%	33.9%	35.8%
EBITDA margin	13.4%	19.0%	21.8%	25.0%	27.7%	29.7%
Net margin	5.1%	9.0%	9.8%	11.6%	12.4%	12.8%
ROCE	14.2%	20.2%	19.8%	19.6%	19.3%	18.8%
Net debt / Equity	3.35	0.88	0.89	1.10	1.29	1.44
Net interest cover	2.19	3.35	2.98	3.47	3.28	3.09

Source: Lakah Group audited and unaudited financial statements and SG forecasts

Financial Analysis - Comments

Sales expected to grow at a nominal rate of 9% in 1999-2001

- **Sales** grew rapidly between 1996 and 1998. We expect sales to **grow moderately** at a nominal rate of 9% in the 1999-2001 period. The 1998 sales breakdown is as follows: 47% of sales were direct Egyptian sales, 16% were sales to its Medequip subsidiary and 37% were sales outside of Egypt.
- Over 35% of medical equipment sales are expected to be made through **lease financing,** which enjoys a 5% spread on leases (16% leasing revenues less 11% leasing costs).on top of a 25% gross margin on distribution.

CAGR 99-01 of 13.7% for sales and 26.3% for net earnings

- Higher 1998 margins due to revised transfer prices with Toshiba. Even higher margins in the 1999-2003 period are due to lease financing spreads and significantly **higher service revenues**. The CAGR 99-01 for net earnings is 26.3%.

Medical Centres Management Company (MCMC)

Company Operations

Operates and manages both its own and its clients' medical facilities

- Established in 1995, MCMC operates and manages both its own and its clients' medical facilities. It also develops specialised medical facilities. It was awarded its first major contract in 1996 by the Cairo Healthcare organisation to supply, install and operate Computerised Tomography centres at three hospitals in return for collecting 87% of revenues. MCMC supplies the equipment for free. The company signed three similar agreements in 1997 and five new contracts covering five hospitals in 1998. The public sector represents about 95% of MCMC's revenues.
- MCMC concluded an agreement with Arabian Medical Consultancy Group (AMCG) to provide consultant doctors for these centres. As of June 1999, the company had 13 full-time employees, in addition to 150 contracted staff from AMCG.

Core Strengths and Company Strategy

Affiliation with subsidiaries to offer complete solutions is its main strength

- MCMC's main strengths reside in its affiliation with subsidiaries, Medequip and TMSE, which offer complete medical centre solutions except for operations. MCMC's focus on managing and operating medical centres and, eventually, hospitals, is a logical extension of the other two companies' activities.

Regional expansion is a reality

- The company plans to widen the scope of medical equipment operation, aggressively seek new contracts from both the public and the private sector, develop and manage new medical facilities, expand its operations into the Middle East, North Africa and West Africa region and develop the use of telemedicine (no fibre optic network as yet) in order to provide cost efficient specialist care, particularly in rural areas.

Medicenter Specialty Hospital

- MCMC recently started a (specialised) hospital construction project in Cairo. The hospital, which is being built by Medequip, consists of 11 floors and is scheduled for completion by the end of 2001. The estimated cost is E£101mn. It is estimated to generate close to E£200mn of revenues by 2001. As of 30 June 1999, four out of seven special hospital floors were sold for E£75mn.

Issues, Concerns and Risks

- Lakah has a golden opportunity to develop aggressively and operate its own network of medical centres, thereby raising the barrier to entry to potential competitors while a solid medical asset base is established. There is concern that management may try to enter too many fields at the same time which might distract it from rapidly achieving such a network.

No year 2000 problems envisaged

- MCMC has tested all its hardware and software to be year 2000 compliant and does not believe it will encounter any problems.

Financial Analysis

Table 14

MCMC Financial Highlights and SG Forecasts

MCMC Income Statement, in E£ 000

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
Sales	4,697	11,273	62,528	80,365	111,225	133,247
Cost of Sales	3,548	8,140	37,164	48,817	67,363	81,093
Gross Profit	**1,149**	**3,133**	**25,363**	**31,549**	**43,862**	**52,153**
Operating expenses before D&A	499	512	2,501	3,215	4,449	5,330
EBITDA	**650**	**2,622**	**22,862**	**28,334**	**39,413**	**46,824**
Depreciation and amortisation	179	894	1,692	1,995	2,432	2,682
EBIT	**471**	**1,728**	**21,170**	**26,339**	**36,980**	**44,141**
Net financial & other expense	164	119	625	645	676	632
EBT	307	1,609	20,545	25,694	36,304	43,509
Tax provisions	243	-	4,098	6,158	10,402	13,284
Net profit	**64**	**1,609**	**16,447**	**19,536**	**25,902**	**30,225**

MCMC Balance Sheet in E£ 000

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
Cash	68	5,843	17,061	25,715	14,870	27,025
Accounts & other receivables	2,132	5,150	10,371	17,631	26,447	33,059
Notes receivable	-	1	2	3	4	5
Work in progress	-	37,000	33,500	16,687	20,025	23,029
Inventory	246	1,371	2,706	4,599	6,899	8,624
Other currrent assets	-	1	2	3	4	5
Total current assets	2,446	49,366	63,642	64,639	68,249	91,747
Net fixed assets	7,993	62,023	69,530	82,535	100,103	97,421
Other long term assets	25	13	-	-	-	-
Total long term assets	8,018	62,036	69,530	82,535	100,103	97,421
Total assets	10,464	111,402	133,172	147,175	168,352	189,167
Accounts payable	71	59	743	976	1,347	1,622
Short term debt	9,815	6,602	7,000	7,250	7,500	7,750
Other current liabilities	264	67	4,305	6,510	10,931	13,945
Total current liabilities	10,150	6,728	12,049	14,737	19,778	23,317
Long term debt due to banks	-	-	-	-	-	-
Long term debt - Holding Co.	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Total long term debt	-	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-	-
Total long term liabilities	-	-	-	-	-	-
Paid up capital	250	103,000	103,000	103,000	103,000	103,000
Reserves and retained earnings	64	1,673	18,119	29,432	45,567	62,841
Shareholders' Equity	**314**	**104,673**	**121,119**	**132,432**	**148,567**	**165,841**
Total Liabilities & shareholders' Equity	**10,464**	**111,400**	**133,168**	**147,169**	**168,344**	**189,157**

Source: Lakah Group audited and unaudited financial statements and SG forecasts

Financial Analysis

Table 15

MCMC Financial Highlights and SG Forecasts

MCMC Cash Flow Statement, in E£000

For year ending 31 December	1998	1999E	2000E	2001E	2002E
Net profits	1,609	16,447	19,536	25,902	30,225
Add: depreciation and amortisation	894	1,692	1,995	2,432	2,682
Gross cash flow	2,502	18,139	21,531	28,335	32,908
Add: net financial & other expense	119	625	645	676	632
(Increase) decrease in non-cash working capital	- 44,565	2,265	10,347	- 9,412	- 7,802
Operating cash flow	- 41,944	21,029	32,523	19,600	25,738
Capital expenditures on fixed assets	54,924	9,200	15,000	20,000	-
Free cash flow	- 96,867	11,829	17,523	- 400	25,738
Less: net financial and other expense	- 119	- 625	- 645	- 676	- 632
(Increase) decrease in other long-term assets	12	13	-	-	-
Increase (decrease) in long-term liabilities	-	-	-	-	-
Increase (decrease) in paid in capital	102,750		-	-	-
Less: dividends paid	-	-	- 8,223	- 9,768	- 12,951
Net cash flow	5,775	11,218	8,654	- 10,845	12,155
Beginning cash	68	5,843	17,061	25,715	14,870
Year end cash	5,843	17,061	25,715	14,870	27,025

Ratio and DuPont Analysis

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
EBIT margin	10.0%	15.3%	33.9%	32.8%	33.2%	33.1%
X Asset turnover	0.45	0.10	0.47	0.55	0.66	0.70
= Return on assets (ROA)	4.5%	1.6%	15.9%	17.9%	22.0%	23.3%
x Financial & other burden	0.65	0.93	0.97	0.98	0.98	0.99
= EBT / Assets	2.9%	1.4%	15.4%	17.5%	21.6%	23.0%
x [1 - Effective tax rate]	20.8%	100.0%	80.1%	76.0%	71.3%	69.5%
x Leverage [Assets / Equity]	33.3	1.1	1.1	1.1	1.1	1.1
= Return on equity (ROE)	20.3%	1.5%	13.6%	14.8%	17.4%	18.2%
Gross margin	24.5%	27.8%	40.6%	39.3%	39.4%	39.1%
EBITDA margin	13.8%	23.3%	36.6%	35.3%	35.4%	35.1%
Net margin	1.4%	14.3%	26.3%	24.3%	23.3%	22.7%
ROCE	4.7%	1.6%	16.5%	18.9%	23.7%	25.4%
Net debt / Equity	31.06	0.01	-0.08	-0.14	-0.05	-0.12
Net interest cover	2.87	14.48	33.87	40.82	54.68	69.82

Source: Lakah Group audited and unaudited financial statements and SG forecasts

Financial Analysis – Comments

CAGR 99-01 of 114.5% for sales and 152.5% for net earnings

* Exceptionally high earnings growth is due to short-term factors, from the sale of hospital floors and, starting from a much lower revenue base, to the significant increase in medical facility management revenues.
* Improvements in margins are due to the economies of scale expected from the increased number of management contracts and from higher revenues per contract.
* A more aggressive medical centres development programme would require substantially higher capex than projected but would also result in higher revenues.

Quest Consult

Company Operations

Medical construction projects and electro-mechanical works

Quest Consult (Quest) was incorporated in 1995. It is involved in two business lines: (1) completion of primarily medical construction projects using building materials that are either manufactured and distributed or simply distributed by the company; and (2) electro-mechanical works. The company had 109 full-time employees as of June 1999.

Products and Services

- *Manufacturing building materials.* Quest has a factory that reshapes imported antibacterial Acrilyne sheets. The final product is distributed and used for various applications: medical worktops, wall claddings, floors and table tops.
- *Distribution of building finishing material.* Quest acts as the Egyptian distributor for Polifen (Acrilyne sheets), Artilin (specialised antibacterial and anti-insect paint), Mipolan (specialised antistatic and antibacterial flooring) and Wavin (specialised antibacterial wall coverings).
- *Services.* Execution of all finishing work for mainly hospitals and clinics. Some projects require specialised expertise (e.g., X-ray radiation protection).

Customers and Competitors

Targets both customers from the public and private sector

Quest targets the growth in the healthcare care sector, with customers from both the private and the public sectors. The company has identified the need for higher specification finishing for hospitals and medical centres and has virtually no competition in Egypt.

Core Strengths and Company Strategy

Quest enjoys the advantages inherent in Lakah Group's vertically integrated medical business. Its well-focused activities complement Medequip's contracting business and result in an increased competitive edge in turnkey projects.

Extending customer base to non-medical facilities

The company's strategy consists of expanding its customer base to operators of non-medical facilities such as hotels (already happening), schools, government offices, restaurants and other facilities. This will require the expansion of both the Acryline production capacity and of its human resources. Moreover, the company intends to secure additional distribution agreements by focusing on manufacturers of finishing materials and interior decoration and by targeting growth products such as flase ceilings and light fixtures.

Issues and Concerns

Risk of distraction from medical expertise

Expansion of distributorship into new building material areas, while opening up new growth opportunities, may distract or overstretch Quest's management from its keeping its focus on the medical sector.

No year 2000 issues

Quest has tested all its hardware and software to be year 2000 compliant and does not envisage any problems from the issue.

Financial Analysis

Table 16

Quest Consult Financial Highlights and SG Forecasts

Quest Income Statement, in E£ 000						
For year ending 31 December	**1997**	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
Sales	4,119	33,662	42,810	53,606	64,783	77,739
Cost of Sales	3,380	26,086	33,326	41,753	50,702	60,843
Gross Profit	**739**	**7,576**	**9,484**	**11,854**	**14,080**	**16,896**
Operating expenses before D&A	248	383	604	777	904	1,300
EBITDA	**491**	**7,193**	**8,881**	**11,077**	**13,176**	**15,597**
Depreciation and amortisation	38	77	467	1,099	1,363	1,421
EBIT	**453**	**7,116**	**8,414**	**9,978**	**11,813**	**14,176**
Net financial & other expense	32	233	1,228	1,622	1,630	2,304
EBT	421	6,883	7,186	8,356	10,183	11,871
Tax provisions	161	891	874	1,342	2,073	2,749
Net profit	**261**	**5,992**	**6,312**	**7,013**	**8,110**	**9,123**

Quest Consult Balance Sheet in E£ 000						
For year ending 31 December	**1997**	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
Cash	**63**	**1,140**	**10,483**	**17,947**	**13,563**	**11,424**
Accounts & other receivables	904	9,683	11,987	15,010	18,139	21,767
Notes receivable	2,175	64	-	-	-	-
Work in progress	1,700	10,387	13,269	16,189	19,426	23,312
Inventory	650	8,861	10,274	12,866	15,548	18,657
Other current assets	456	10,089	12,867	15,698	18,838	22,605
Total current assets	5,948	40,223	58,881	77,709	85,514	97,765
Net fixed assets	354	590	15,624	22,024	22,761	21,340
Other long term assets	-	24,750	9,250	1,750	-	-
Total long term assets	354	25,341	24,874	23,775	22,761	21,340
Total assets	6,301	65,564	83,755	101,483	108,275	119,105
Accounts payable	4,747	2,026	3,333	4,175	5,070	6,084
Short term debt	871	6,457	1,000	1,500	2,000	6,000
Other current liabilities	179	1,085	1,114	1,642	2,436	3,184
Total current liabilities	5,797	9,567	5,447	7,318	9,506	15,268
Long term debt due to banks	-	-	16,000	28,000	28,000	28,000
Long term debt - Holding Co.	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Total long term debt	-	-	16,000	28,000	28,000	28,000
Other long-term liabilities	-	-	-	-	-	-
Total long term liabilities	-	-	16,000	28,000	28,000	28,000
Paid up capital	500	50,000	50,000	50,000	50,000	50,000
Reserves and retained earnings	5	5,997	12,308	16,166	20,769	25,837
Shareholders' Equity	**505**	**55,997**	**62,308**	**66,166**	**70,769**	**75,837**
Total Liabilities & shareholders' Equity	**6,301**	**65,564**	**83,755**	**101,483**	**108,275**	**119,105**

Source: Lakah Group audited and unaudited financial statements and SG forecasts

Financial Analysis

Table 17

Quest Consult Financial Highlights and SG Forecasts

Cash Flow Statement, in E£000					
For year ending 31 December	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
Net profits	5,992	6,312	7,013	8,110	9,123
Add: depreciation and amortisation	77	467	1,099	1,363	1,421
Gross cash flow	6,069	6,778	8,112	9,473	10,544
Add: net financial & other expense	233	1,228	1,622	1,630	2,304
(Increase) decrease in non-cash working capital	-29,428	-13,435	-9,493	-10,001	-8,628
Operating cash flow	-23,126	-5,429	241	1,103	4,220
Capital expenditures on fixed assets	313	15,500	7,500	2,100	-
Free cash flow	-23,439	-20,929	-7,259	-997	4,220
Less: net financial and other expense	-233	-1,228	-1,622	-1,630	-2,304
(Increase) decrease in other long-term assets	-24,750	15,500	7,500	1,750	-
Increase (decrease) in long-term liabilities	-	16,000	12,000	-	-
Increase (decrease) in paid in capital	49,500	-	-	-	-
Less: dividends paid	-	-	-3,156	-3,507	-4,055
Net cash flow	1,077	9,343	7,464	-4,384	-2,139
Beginning cash	63	1,140	10,483	17,947	13,563
Year end cash	1,140	10,483	17,947	13,563	11,424

Ratio and DuPont Analysis						
For year ending 31 December	**1997**	**1998**	**1999E**	**2000E**	**2001E**	**2002E**
EBIT margin	11.0%	21.1%	19.7%	18.6%	18.2%	18.2%
X Asset turnover	0.65	0.51	0.51	0.53	0.60	0.65
= Return on assets (ROA)	7.2%	10.9%	10.0%	9.8%	10.9%	11.9%
x Financial & other burden	0.93	0.97	0.85	0.84	0.86	0.84
= EBT / Assets	6.7%	10.5%	8.6%	8.2%	9.4%	10.0%
x [1 - Effective tax rate]	61.9%	87.1%	87.8%	83.9%	79.6%	76.8%
x Leverage [Assets / Equity]	12.5	1.2	1.3	1.5	1.5	1.6
= Return on equity (ROE)	51.7%	10.7%	10.1%	10.6%	11.5%	12.0%
Gross margin	17.9%	22.5%	22.2%	22.1%	21.7%	21.7%
EBITDA margin	11.9%	21.4%	20.7%	20.7%	20.3%	20.1%
Net margin	6.3%	17.8%	14.7%	13.1%	12.5%	11.7%
ROCE	32.9%	11.4%	10.6%	10.4%	11.7%	12.9%
Net debt / Equity	1.60	0.09	0.10	0.17	0.23	0.30
Net interest cover	14.26	30.53	6.85	6.15	7.25	6.15

Source: Lakah Group audited and unaudited financial statements and SG forecasts

Financial Analysis – Comment

CAGR 99-01 of 24.4% for sales and 10.6% on net earnings

- CAGR 99-01 sales of 24.4% reflect solid growth in both lines of businesses, building material sales and contracting (finishing). More than 90% of sales for the 98-2001 period have been made in contracting.
- Overall margins are, therefore, closer to the lower contracting margin of 21% than the 40% margin on material manufacturing and sale.
- CAGR 99-01 net earnings of only 10.6% is due to higher financing expenses and a higher effective tax rate.